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SUBJECT: SIX ARRESTED FOR CORRUPTION AT PRIVATIZATION FUND

(U) Sensitive but unclassified; please handle accordingly.

¶1. (SBU) Summary and Comment: Six employees of the Croatian Privatization Fund (Fund) were arrested June 16 on charges of corruption. The accused, who include three of the Fund's vice presidents, were netted in a year-long sting operation conducted by the Police and the State Prosecutor's Office to Combat Organized Crime and Corruption (USKOK). The privatization process in Croatia has long been tainted by suspicions of corruption and insider deals. What is unusual about these arrests is the fact that they happened at all, as charges of official corruption have been infrequent in Croatia. Coming as they do in an election year, the bigger question now is where this will stop. Some members of the opposition have already called for the dismissal of the four ruling-party ministers who sit on the Fund's supervisory board. PM Sanader, however, said that the arrests prove his government's commitment to fighting corruption, a potential sticking point in Croatia's EU accession. End Summary.

¶2. (SBU) Croatian Chief State Prosecutor Mladen Bajic and USKOK head Dinko Cvitan called a press conference on June 16 to announce the arrests of six employees of the Croatian Privatization Fund following a year-long undercover operation. Although the six were unnamed, press reports have revealed that three were Fund vice presidents and two were attorneys. A warrant has also been issued for a seventh person. The arrested were accused of accepting bribes from USKOK agents posing as investors in the amount of 800,000 euros and revealing insider information. According to Cvitan, the accused were tailoring tenders for public companies, assessing property below market value and engaging in insider stock trading in the companies in the Fund's portfolio. Those arrested will now appear before a judge who will decide on their continued detention while the investigation continues.

¶3. (SBU) The privatization process has been carried out under a cloud of suspicion in Croatia from the earliest days. Most Croatians have long assumed that many deals were done that resulted in a chosen few amassing vast wealth at the expense of the state. Some politicians, including President Mesic, have long called for a review of all privatization deals. Until now, however, virtually nobody has ever been charged with fraud in connection with privatization.

¶4. (SBU) These arrests, by virtue of the fact that they occurred and the number of people arrested, are a new development for Croatia where few cases of high-level corruption have ever been brought. However, in the already heated climate of an election year, the question in Zagreb political circles is where this will stop and what effect it will have on PM Ivo Sanader's ruling HDZ. Some opposition parties have already called for the dismissal of the four HDZ ministers who sit on the Fund's supervisory board. Sanader said that the arrests show his government's commitment to the rule of law and its determination to fight corruption. President Mesic repeated calls for investigations of the wealth of those who "before the war didn't even own a bicycle."

15. (SBU) Note: Earlier this year, Post and ICITAP organized a study trip for GOC Chief of Police and USKOK Director Cvitan with their deputies to examine the U.S. model of police-prosecutor cooperation on organized crime and corruption cases, including the formation of operational task forces to investigate criminal activity. While communication and trust between the two institutions has been traditionally problematic, recently we have seen several successful joint operations.

BRADTKE